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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

PERIODIC REPORTING (PROPOSALS THREE THROUGH EIGHT)	Docket No. RM2014-6

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTICAL PRINCIPLES (PROPOSALS THREE THROUGH EIGHT)

(June 20, 2014)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider six proposals to change analytical principles relating to the Postal Service's periodic reports. The proposals, labeled Proposals Three through Eight, are discussed in the attached text.

The Postal Service notes that Proposal Six, regarding updates to the variabilities for purchased highway transportation costs, encompasses a subject which has been discussed as part of the Strategic Rulemaking (Docket No. RM2011-3). Therefore, a separate notice will be simultaneously filed today in the Strategic Rulemaking, alerting participants in that docket that Proposal Six has been presented in this case. However, because it is a quite straightforward update of prior work also done by Professor Bradley, with substantially similar results, there does not appear to be any reason why the types of procedures normally employed in these proceedings for proposed changes in analytic methodologies would necessarily be insufficient for adequate review. As a

consequence, to expedite the ability to incorporate the new variabilities into the FY2014 CRA, Proposal Six is included within this set of proposals.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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PROPOSAL THREE
Revision to Parcel Return Service Full Network Cost Model

Objective

The Postal Service proposes a change in modeling the transportation costs for Parcel Return Service Contract 4. The model uses Parcel Select non-presort model transportation costs as a proxy. The proposal is to adjust the transportation costs commensurate with the customer's (smaller) cube.

Background and Rationale

When the financials for PRS Contract 4 were originally filed, the model used FY2012 costs for Parcel Select Non-presort as a proxy. Docket No. MC2013-6/ CP2013-60. This was deemed appropriate since, at the time of filing, the average size and cube of Parcel Select Non-presort was approximately equivalent to the partner pieces (See the Postal Service response to CHIR No. 5 Q11, ACR2013.) However, the characteristics of the Parcel Select Non-presort pieces changed substantially since the cost model was developed (see the response to ChIR No. 2, Question 3, ACR2013.) The average weight of a Parcel Select Non-presort piece has increased, whereas the average PRS contract piece remained much lighter. As a result, the Postal Service proposes an adjustment to the transportation cost for the contract pieces to account for the difference in their size vis-à-vis FY2013 Parcel Select Non-presort pieces.

Cost Model Revision and Impact

Full details of the proposal are filed under seal in USPS-RM2014-6/NP1. The concept, however, is very straightforward -- since cube is the primary cost driver for the ground transportation network, transportation costs are proposed to be adjusted in

proportion to the cube of the partner pieces relative to the cube of the baseline product (Parcel Select Non-presort). As shown in the revised cost analysis worksheet provided therein, if this proposal were adopted, the FY 2013 cost coverage for the PRS contract 4 would increase from below 100 percent (as reported in the FY2013 ACR) to comfortably above 100 percent.

PROPOSAL FOUR

A Proposed Change in International NSA Methodology

OBJECTIVE:

The Postal Service proposes to revise the costing methodology of the non-NSA portion of International Priority Mail (IPA) and International Surface Airlift (ISAL) (the IPA and ISAL published rates). This affects both the Booked and Imputed version of Reports.

BACKGROUND:

As explained in its response to USPS-ACR-FY13, Chairman's Information Request No. 3, Question 11:

> The difficulty of identifying IPA as a small product is more than the number of tallies. Non-NSA IPA constitutes about 2 percent of total IPA volume and the costs reported in the ICRA are small residual portions of the entire IPA "parent product" for which costs are estimated. NSA costs are calculated, along with drop ship cost savings, and deducted from total IPA costs, i.e., there is no direct observation of the non-NSA IPA costs. There are only total IPA "parent" costs. Therefore, any variances in the estimates of costs for the NSA products will have a magnified effect on the residual costs.
>
> There is also a gross to net weight issue. NSA data are only net weight, whereas RPW provides gross, which is used to cost the flows for the residual products.
>
> Given the small residual amounts of non-NSA IPA, the cost estimates can have high variances.

In its Annual Compliance Determination, the Commission made the following points concerning IPA on pages 84 - 86:

Commission Analysis

The Commission finds that the IPA product does not comply with section 3633(a)(2). The Commission therefore directs that the Postal Service report within 90 days and reconfirm that the IPA product will cover the projected attributable costs in FY 2014. The Postal Service shall also provide an analysis of the causes of the FY 2013 loss and decrease in cost coverage. In addition, the Postal Service is to recommend modifications to its current methodology of developing costs and, if necessary, propose the modifications in a rulemaking, so as to improve the reliability of such costs for the IPA product.

According to the Postal Service, total IPA attributable costs are initially estimated for IPA volumes as a whole, i.e., both Global Plus NSA and non-NSA volumes. Attributable costs are then calculated for the NSAs and subtracted from the estimate of total IPA costs. Response to CHIR No. 3, question 11. The residual, i.e., total IPA attributable costs less NSA attributable costs, becomes the cost reported in the ICRA for the IPA product. *Id.* The Postal Service concludes that "any variance in the estimate of costs for NSAs that are part of Global Plus Contracts will have a magnified effect on the residual costs" of the IPA product.14 (footnote omitted)

. . . .

Public Representative Comments

The Public Representative is the only party to comment on the IPA product. While acknowledging the challenges identified by the Postal Service in assessing the causes of the decrease in cost coverage for this small-volume product, the Public Representative finds the Postal Service's definition of IPA "parent product" costs in its explanation confusing, and the methodology for calculating IPA costs undeveloped.16 (footnote omitted)

. . . .

The Public Representative also suggests that the Commission request the Postal Service improve its methodology for calculating IPA costs. *Id.* Finally, it recommends that the Commission assess whether an increase in rates for the IPA product is necessary, in light of the 2.4 percent average decrease in IPA rates for FY 2014. *Id.*

. . . .

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PROPOSAL:

While investigating its response to the 90-day directive in the Commission's Annual Compliance Determination (ACD), the Postal Service developed a methodology to address the net versus gross weight issue, which the Postal Service believes underlies the current cost coverage and costing issues. This proposal seeks the Commission's approval of the new methodology.

RATIONALE:

The dataset used for NSA analysis includes complete negotiated service agreement (NSA) and non-NSA revenue, piece and net weight data for ISAL and IPA which agree precisely with the Revenue, Piece and Weight (RPW) totals for both NSA and non-NSA data. This dataset also includes NSA revenue, piece and net weight data for Priority Mail Express International (PEMI), ePackets, Global Direct Entry outbound (GDEO), Global Express Guaranteed (GXG), Priority Mail International (PMI) envelopes, and PMI parcels which tie to the NSA amounts reported by RPW. However, the dataset does not include gross weight. Furthermore, these data are not reported by country, rather, they are reported by country rate group (which varies by product), the

relevant destination information for billing the customer. (To the best of our knowledge, country level data for these NSA products are not captured and preserved at any point in the data collection process). This lack of specific country information can cause mismatches with the ICRA country level data, as will be reviewed below in a proposed reporting adjustment for the non-NSA residual product data by country grouping.

The crux of the IPA issue is that ICRA costs are developed for total IPA costs, including both NSA and non-NSA amounts, by combining data from SIRVO by country (the NSA dataset is only by country group) with settlement and transportation costs estimated based on SIRVO gross weights. The cost estimates reported from the various domestic statistical systems are also for total IPA product flows, including both NSA and non-NSA amounts. The IPA reported as the non-NSA product is developed as a residual – the total product costs minus the costs estimated for the NSAs, which lacking gross weight data, have had settlement and transportation costs developed based on net weights for NSAs. This essentially attributes all of the NSA gross weight data (tare weight) to the residual (i.e., the IPA non-NSA product). There is no solution to estimating the residual costs that is free of assumptions, as gross and net weight relationships can vary for the NSA and non-NSA products.

The proposed solution is to adjust how costs are developed for use in the development of NSA costs which get applied to the NSA data in the “ICM Costing Module.” Pricing group costs by product are developed in the reporting section of the ICRA and then staged for use in the ICM Costing Module. This staging has been based

on unitizing settlement and transportation costs by gross weight (as that is the basis for costing in the ICRA). A procedure that assumes that gross versus net weight relationships are the same for the residual product as for the NSAs can be implemented by merely staging the weight-related cost data on a net weight unitized basis. Since net weight is less than or equal to gross weight, when used as the denominator in the cost per pound calculation, the costs per pound staged for the ICM Costing Module will be higher under this procedure, and indeed more appropriate, since the weight-related costs are to be applied to net weights. This will transfer some additional settlement and transportation costs from the IPA product to the NSA IPA products.

For consistency, it is proposed that this staging based on net weights also be applied to ePackets, PMI parcels and PMI envelopes, which also have differences in SIRVO between gross and net weight. PMEI and ISAL are not affected since SIRVO reports net and gross weight the same for these products. GDEO and GXG are not part of SIRVO and are also unaffected.

The final issue refers back to the mismatch between the customer billing data available only by pricing rate group and the ICRA proper which is developed from country level data. The competitive section has pages (A-3, A-4, B-3 and B-4) after the main summary that include break outs for Canada, Mexico, Universal Postal Union (UPU) target countries (“ICs”) and transition countries (“DCs”). Pricing rate groups change over time and can either be individual countries, all Target Countries or all Transitions Countries or mixed Target and Transition Countries. It is the mixed pricing

rate groups that require assumptions to allocate the NSA data from pricing rate groups to Target Countries and Transition Countries. As the organization of the data by Canada, Mexico, Target Countries and Transitions Countries is a carryover from pre-PAEA MCS organization of the ICRA, and none of these breakouts are "products" that are reviewed for compliance, it is proposed that the allocation of the NSA data to the four country groupings be discontinued and that the competitive pages A-3, A-4, B-3 and B-4 be discontinued from the ICRA reporting. These breakouts of the already small residual require additional assumptions and analysis which make their estimates even more questionable. Finally, the rate group allocation step in the ICM Costing Module is the most time-consuming element; eliminating this step would streamline processing considerably, resulting in ICRA production cost savings.

IMPACT:

The non-public Excel file Prop4 Attachment 1.xls filed under seal as part of USPS-RM2014-6/NP2 displays the comparison between the FY 2013 Imputed version as filed in USPS-FY13-NP2 (Revised 2-6-14 with Order 1983, RM2013-6) and the proposed methodology. The non-Public Excel file, Prop4 Attachment 2.xls, also filed under seal as part of USPS-RM2014-6/NP2, displays the comparison between the FY13 Booked version as filed in USPS-FY13-NP2 (Revised 2-6-14 with Order 1983, RM2013-6) and the proposed methodology.

Prop4 Attachment 1.xls contains 19 worksheet tabs that present the Imputed A Pages Summary, A Pages (md), B Pages (md), A Pages (c), B Pages (c), and NSA

Summary in two versions. The first version reports results under the implementation of this proposal (those with names ending with “Prop”), and the second version as they are calculated for the FY 2013 Imputed version as filed in USPS-FY13-NP2 (Revised 2-6-14 with Order 1983, RM2013-6) implemented (those whose names end with “ACR”). In addition, every unit cost change under this proposal that differs by more than $0.001 and 1 percent at the same time are tabulated and presented in the first tab, <Imputed Differences>. There are 130 such differences, and the location of each is given in <Imputed Differences> and also shown by green cell shading in the proposal pages of the reports. There are also six “difference” sheets (with names ending in “Diffs”) that present the difference between cells in the proposed sheets and the corresponding ACR sheets, regardless of magnitudes. Comparisons are presented for the Summary page A-1, market dominant pages A-1, A-2, and B-1, competitive pages A-1, A-2, B-1, B-2 and B-5, and the NSA Summary. Competitive pages A-3, A-4, B-3 and B-4 are not provided, as their elimination is being proposed.

For changes to the imputed version of the ICRA, a good overview of the impacts from this proposal to the Imputed reports can be seen in the tab, <A Pages Summary Imputed Prop> and the corresponding statistics in <Imputed Differences>. There, it can be seen that IPA Contribution has increased at the expense of shifting costs to the Outbound NSAs. Details of those changes can be seen on the <NSA Summary Imputed Prop> tab and corresponding entries in <Imputed Differences>. NSAs with IPA components experience cost increases. The same is true for NSAs with PMI components; however, all changes to the PMI Competitive Product are less than 1 percent, and so do not appear in the <Imputed Differences> statistics or the shading.

Also, no products on the market dominant pages meet the shading criteria. Finally, even though many of the outbound NSAs experience cost increases meeting the criteria for noting changes, none of these changes to the NSAs cause contribution for NSA to become negative.

The structure of Prop4 Attachment 2.xls also contains 19 tabs that parallel Attachment 1, but report results for the booked version of the ICRA. There are 130 differences meeting the criteria for highlighting significant changes, and the location of each is given in <Booked Differences> and also shown by green cell shading in the proposal pages of the reports. As for the imputed version the A Pages Summary Booked Prop shows an increased contribution for non-NSA IPA, with a shift to the NSAs with IPA components.

Most of the impacts to Booked Reports under this proposal are the same as the impacts to Imputed Reports. A small number of primarily Global Plus contracts are identified as changed in Booked or Imputed and not the other because of the proximity of the changes to cost or Contribution to the 1 percent threshold used in the identification.

MECHANICS:

The implementation of this proposal involves adjustments in Reports.xls and Reports (Booked).xls. The adjustments are on the sheets “Unit_Cost_Staging” column entitled “Lb_per_Piece,” column “n.” There are three NSA products: IPA, PMI parcels and PMI envelopes with gross and net weight differences reported in the ICRA. For a symmetrical treatment of IPA, PMI parcels and PMI envelopes, the weight per piece for

each of the three products on the Unit_Cost_Staging sheet is now net weight per piece, smaller values than gross weight per piece. Costs per pound in the staging area are developed from costs per piece divided by weight per piece (now net weight). Thus, converting to net weight per piece increases the resulting costs per pound, now representing cost per net pound, which are then applied in the ICM Costing Module.

A second set of adjustments is made in Domestic Tran Calcs.xls in the area where the total domestic transportation costs get unitized on the “annual” sheet. On row 73 of this sheet, outbound NSA mail weight are staged for adding to the non-NSA mail. Adjustments are made to three cells for the ratio of gross weight to net weight for NSAs in IPA, PMI envelopes and PMI parcels in order to obtain gross NSA weights for adding to the gross non-NSA weights in the calculation of the domestic transportation unit cost per pound.

PROPOSAL FIVE

A Proposed Change in PRIME Exprès Costing Methodology

OBJECTIVE:

The Postal Service proposes to revise the costing methodology implied in its response to USPS-ACR-FY13, Chairman's Information Request No. 3, Question 8 and implemented by the Commission in its PRC-ACR2013-NP-LR1_Imputed ICRA and PRC-ACR2013-NP-LR1_Booked files. As such, this affects both the Booked and Imputed version of Postal Service's Reports files.

BACKGROUND:

As explained in the Postal Service's response to USPS-ACR-FY13, Chairman's Information Request No. 3, Question 8:

> Inbound Market Dominant Exprès Service Agreement 1 was established by Docket No. R2011-6, Order No. 876 (9/26/11) and there was no activity to report until Quarter IV of FY13. As a result of the time span, the financial results for Inbound Market Dominant Exprès Service Agreement 1 were inadvertently reported as part of Inbound Single-Piece First-Class Mail in the FY13 ICRA and not separately identified with the rest of the NSAs.

As part of that response, the Postal Service also provided the PRIME inbound volumes by country, the Delivery Confirmation unit cost, the PRIME annual membership fee[1] and the calculations for total cost and contribution. The response stated that the amounts were inadvertently reported as part of Inbound Single-Piece First-Class Mail, but no clear direction was provided to implement the proper treatment

[1] The PRIME annual membership fee in euros was incorrect when shown in US dollars. That is corrected with this proposal

of PRIME.

PROPOSAL:

The Commission incorporated a PRIME adjustment in its PRC-ACR2013-NP-LR1_Booked ICRA and PRC-ACR2013-NP-LR1_Imputed ICRA Excel files, but that adjustment was not correct in our view. First, the Commission subtracted the total Expres pieces from Inbound Letterpost, which resulted in the sum of the Target Countries and the Transition Countries not equaling the amount shown in the total Inbound Letterpost line. As such, the amounts shown for Target Countries, Transition Countries or both are not correct. The remedy is to subtract the Exprès amounts, except volume, which is discussed below, from the appropriate Target or Transition Countries. The attachment to the response to USPS-ACR-FY13, Chairman's Information Request No. 3, Question 8, showed that all of the Exprès countries were Target Countries. As such, the Exprès adjustments should be applied to the Target Countries line.

Second, the Commission subtracted the Exprès volumes from the total Inbound Letterpost line and included them in an international NSA line for Exprès, Docket No. R2011-6, but that is not correct. The Exprès docket includes only the costs and revenue associated with the Delivery Confirmation portion of the mail-piece, so it is important to isolate the Letterpost characteristics of the mail-piece from the Exprès characteristics. The volume, cost and revenue (terminal dues) characteristics of the Letterpost piece are distinct from the volume, cost and revenue (Exprès Bonus Payment) characteristics of the Exprès piece.

Thus, the same mail-piece is both Letterpost and Exprès, which is confusing, but the remedy can be seen in the special services analogy discussed below. The logic of that remedy is the basis for this proposal to properly report PRIME.

RATIONALE:

Docket No. R2011-6 established that only the revenue associated with achieving scanning performance goals is associated with the Exprès product. Additionally, only the volume variable costs associated with Delivery Confirmation scanning and the Product Specific costs associated with the PRIME annual membership fee are attributed to the Exprès product. All of the other revenue and cost associated with the host inbound Letterpost mail-piece is attributed to Inbound Single-Piece First-Class Mail. As such, two separate products are associated with each PRIME mail-piece: 1) the Exprès product and 2) the Inbound Single-Piece First-Class Mail product.

The Postal Service proposes to report the two products separately by using a methodology similar to treating the Exprès product as if it were a special service. A special service is an add-on or extra feature to a mail-piece. The host mail-piece exists with or without the special service, but the special service is dependent upon the host mail-piece. All of the cost and revenue of the mail-piece are attributed to the mail-piece and all of the cost and revenue associated with the special service are attributed to the special service. When calculating the unit cost of the mail-piece, all of the mail-piece volume is included in the denominator. Likewise, calculating the unit cost of the special service requires all of the special service volumes be included in the denominator. To avoid double counting, reporting totals do not include the special service volumes

because those pieces are included with the mail-piece, or what is also called the host mail-piece or parent product.

IMPACT:

Only the market dominant pages of the ICRA are affected and the impact is shown in two non-public Excel files, Prop5 Attachment 1.xls is the Imputed comparison and Prop5 Attachment 2.xls is the Booked comparison. Both attachments are filed under seal as part of USPS-RM2014-6/NP2, and both are arranged in three sets of tabs containing the A Pages Summary, the A Pages and the B Pages. The three green tabs show the results of this proposal, the three pink tabs show the differences between this proposal and USPS-FY13-NP2 (as Revised 2-6-14 and including the proposals approved 2/4/14), and the three maroon tabs show USPS-FY13-NP2 (as Revised 2-6-14 and including the proposals approved 2/4/14).

In both the Imputed and Booked version, the impact is to shift the Delivery Confirmation costs associated with Exprès from Inbound Single-Piece First-Class Mail Target Countries to a new international NSA line for Inbound Market Dominant Exprès Service Agreement 1. In the Imputed version, there was no specific treatment for Exprès in USPS-FY13-NP2 (Revised 2-6-14), so in this proposal, the total Exprès revenue is added to the Inbound Market Dominant Exprès Service Agreement 1 line. Thus, Total Market Dominant revenue increases by the Exprès revenue amount in the Imputed version.

In the Booked version, the Exprès revenue was reported in Inbound Single-Piece in USPS-FY13-NP2 (Revised 2/6/14) and in this proposal, it is shifted it to the

new international NSA line for Inbound Market Dominant Exprès Service Agreement 1. Thus, Total Market Dominant revenue does not change in the Booked version.

MECHANICS:

The first step is to explain the methodology and provide the calculations for the inputs to the model. This is done in the revised Chapter 9 of Part 2 of USPS-FY13-NP5 (FY 2013 ICRA Overview/Technical Description).

The amounts calculated in Chapter 9 are transferred to the revised Special Services tab of the Inputs workbook of USPS-FY13-NP2 (FY 2013 International Cost and Revenue Analysis (ICRA) Report).

The revenue amount is removed from Inbound Single-Piece First-Class Mail and reported in the new international NSA line for Inbound Market Dominant Exprès Service Agreement 1 line. The volumes (transactions) are reported in both the Inbound Single-Piece First-Class Mail and the new international NSA line for Inbound Market Dominant Exprès Service Agreement 1, although the Exprès volumes are not included in subtotals or totals to avoid double counting.

The volume variable costs are removed from Inbound Single-Piece First-Class Mail and the Product Specific costs are removed from Other Costs, and both are included in the new international NSA line for Inbound Market Dominant Exprès Service Agreement 1.

PROPOSAL SIX: Updating the Highway Transportation Variabilities

Objective:

The objective of this proposal is to update the variabilites used to determine the levels of attribution for purchased highway transportation expenses in Cost Segment 14.

Background:

It has been more than ten years since the Postal Service last examined the variability of cost with respect to capacity for purchased highway transportation. In the intervening time, the Postal Service has worked to rationalize its contract structure by reducing the lengths of contracts (number of years) and, in some areas, reducing the number of contracts. In addition, in recent years, the Postal Service has been reorganizing its mail processing network, which could have implications for its transportation network. Because of the time that has passed and because these two operational changes, there is the potential that some or all of the purchased highway transportation variabilities may have changed. This possibility, along with the fact that the accrued cost of purchased highway transportation is over $3 billion per year, justifies updating the variability analysis at this time.

Proposal:

While this proposal is summarized below, a more complete discussion is provided in public folder USPS-RM2014-6/1. Also provided in USPS-RM2014-6/1 are the complete data set and econometric results, plus all necessary documentation.

For this update, as was true for the Docket No. R2000-1 analysis, the appropriate unit of analysis is the contract cost segment, not the contract. In most instances, a contract cost segment and a contract are the same thing, as most contracts have just

one cost segment. In some instances, however, a single contract will cover more than one type of transportation. There are 15,869 contract cost segments in the FY2013 TCSS data extract.

As in previous analyses of purchased highway transportation, a translog functional form was used to estimate the relevant equations. For the fifteen transportation equations, the key variable was cubic foot-miles of transportation. For the two box route equations, cubic foot-miles was replaced with the number of boxes. Following the established methodology, a route length variable was included in each equation, to account for the distance taper. Finally, area dummy variables were included to account for possible regional differences in transportation costs. Table 2 presents the estimated variabilities for the seventeen different equations that were estimated.

Table 2

Updated Estimates of Purchased Highway Contract Variabilities

Account Category	Type	Estimated Variability	Heteroscedastic Consistent t-statistic	Equation R^2	# of Obs
Intra P&DC	Box	0.242	6.59	0.411	213
Intra P&DC	City	0.667	37.33	0.886	356
Intra P&DC	Van	0.709	118.37	0.901	4,090
Intra P&DC	TT	0.890	61.36	0.911	767
Intra District	Box	0.309	28.26	0.493	7,345
Intra District	City	0.724	17.21	0.806	100
Intra District	Van	0.635	44.99	0.862	549
Intra District	TT	0.856	10.04	0.860	27
Inter P&DC	Van	0.611	18.15	0.846	169
Inter P&DC	TT	0.938	25.80	0.927	117
Inter Cluster	Van	0.659	28.71	0.891	150
Inter Cluster	TT	0.933	40.56	0.946	217
Inter Area	Van	0.466	9.51	0.673	156
Inter Area	TT	0.918	62.77	0.983	585
Intra NDC	TT	0.949	57.01	0.951	296
Inter NDC	TT	0.947	38.29	0.985	116
Plant Load	TT	1.013	25.58	0.772	259

NDC and plant load transportation have only one type of transportation, so comparison of the updated variabilities with the current variabilities is straightforward, and is done in Table 3.

Table 3
Comparing the FY2013 and R2000-1 Variabilities for NDC and Plant Load Accounts

Account	R2000-1 Variability	FY 2013 Variability	Difference
Intra NDC	98.3%	94.9%	-3.4%
Inter NDC	97.9%	94.7%	-3.2%
Plant Load	89.8%	101.3%	11.5%

The other purchased highway transportation accounts include more than one type of transportation, so changes in either the component variabilities or the component proportions can change the account category variability. Table 4 presents a comparison of the account category variabilities, including a demonstration of the change which arises from new proportions of transportation types in each account.

Table 4
Analyzing the Sources of Change in Account Category Variabilities

	R2000-1 Variabilities	R2000-1 Variabilities with FY 2013 Proportions	FY2013 Variabilities	Difference
Intra P&DC	68.0%	71.4%	75.7%	7.7%
Intra District	39.0%	36.7%	38.0%	-1.0%
Inter P&DC	84.1%	87.8%	85.0%	0.9%
Inter Cluster	90.4%	92.0%	89.1%	-1.3%
Inter Area	91.3%	93.2%	89.9%	-1.4%

Impact:

Table 5 presents the impact, by product, of the updated variabilities on highway attributable cost and overall attributable cost. A breakout of the impact on competitive

Table 5

Changes in Attributable Highway Costs Due to the Use of Updated Variabilities

	Highway Attributable Cost with New Variabilities (Thousands)	Highway Attributable Cost with Old Variabilities (Thousands)	Change in Highway Attributable Cost (Thousands)	% Change in Highway Attributable Cost
FIRST CLASS MAIL				
SINGLE PIECE LETTERS	$227,929	$221,902	$6,027	2.7%
SINGLE PIECE CARDS	$5,508	$5,197	$311	6.0%
PRESORT LETTERS	$222,549	$219,141	$3,408	1.6%
PRESORT CARDS	$7,526	$7,226	$300	4.2%
SINGLE PIECE FLATS	$141,996	$138,743	$3,253	2.3%
PARCELS	$43,294	$41,938	$1,356	3.2%
TOTAL FIRST CLASS	$648,802	$634,147	$14,655	2.3%
STANDARD MAIL				
HIGH DENSITY AND SATURATION LETTERS	$4,567	$4,337	$230	5.3%
HIGH DENSITY AND SATURATION FLATS & PARCELS	$9,929	$9,320	$609	6.5%
CARRIER ROUTE	$58,381	$55,382	$2,999	5.4%
LETTERS	$184,288	$181,493	$2,796	1.5%
FLATS	$151,675	$147,121	$4,554	3.1%
PARCELS	$6,999	$6,932	$67	1.0%
TOTAL STANDARD MAIL	$415,840	$404,585	$11,255	2.8%
PERIODICALS				
IN COUNTY	$143	$132	$11	8.3%
OUTSIDE COUNTY	$207,751	$201,169	$6,582	3.3%
TOTAL PERIODICALS	$207,894	$201,301	$6,593	3.3%
PACKAGE SERVICES				
SINGLE PIECE PARCEL POST	$141,260	$142,140	($880)	-0.6%
BOUND PRINTED MATTER FLATS	$17,924	$17,321	$603	3.5%
BOUND PRINTED MATTER PARCELS	$33,539	$33,082	$457	1.4%
MEDIA AND LIBRARY MAIL	$90,864	$90,571	$293	0.3%
TOTAL PACKAGE SERVICES	$283,587	$283,113	$473	0.2%
TOTAL DOMESTIC COMPETITIVE	$1,003,154	$983,913	$19,240	2.0%

products is provided under seal in USPS-RM2014-6/NP3.

PROPOSAL SEVEN

MODIFICATION OF THE STANDARD MAIL DESTINATION ENTRY COST MODEL AND THE STANDARD MAIL PARCEL MAIL PROCESSING COST MODEL

OBJECTIVE:

The Postal Service proposes that the Standard Mail destination entry cost model and the Standard Mail parcel mail processing cost model be modified as described below.

BACKGROUND:

The volume of Standard Mail parcels decreased significantly between Fiscal Year (FY) 2012 and FY 2013 due to the fact that the Standard Mail commercial price categories were reclassified as Lightweight Parcel Select price categories. The Standard Mail destination entry cost avoidance estimates that were calculated for parcels in USPS-FY13-13 increased significantly when compared to the cost avoidance estimates that were calculated the previous year. In response to Docket No. ACR2013 Chairman's Information Request (ChIR) No. 11, question 1, the Postal Service indicated that the Commission-approved cost methodology may be less robust in the case of smaller parcel volumes. The Postal Service also indicated in its response that it was investigating an alternative methodology in which a parcel mail characteristics profile would be developed using data from the USPS-FY13-12 Standard Mail parcel mail processing cost model.

RATIONALE:

The Postal Service reviewed all aspects of the USPS-FY13-13 Standard Mail destination entry cost model. Based on that review, the Postal Service recommends that the following changes be made: (1) the three EXCEL workbooks be consolidated

into one workbook, (2) two errors be corrected, (3) obsolete operations and input data be removed from the model, (4) more recent productivity data be incorporated into the model, and (5) a new parcel mail characteristics profile be added to the model to separately estimate parcel cost avoidance values. Despite these recommended modifications, the proposed destination entry cost model continues to rely on the overall cost methodology and formulas that have been used to develop Standard Mail transportation and non-transportation cost avoidance estimates since Docket No. MC95-1. The proposed Standard Mail destination entry cost model is contained in the file PROP.7.USPS-FY13-13.xlsx (attached to this Petition electronically). The worksheet tabs within the model have been highlighted in yellow if they contain any modifications. In addition, the areas within each worksheet where changes have been made have also been highlighted in yellow.

The new parcel mail characteristics profile described in item (5) above has been developed using data from the USPS-FY13-12 Standard Mail parcel mail processing cost model. The Postal Service proposes that an additional worksheet be added to the USPS-FY13-12 Standard Mail parcel mail processing cost model in order to present the Standard Mail parcel arrival profile and volume data in a format that is similar to the mail characteristics profiles for Standard Mail letters and flats. This modification does not affect the USPS-FY13-12 price category cost estimates in any way. The parcel mail characteristics profile will then be used each fiscal year to estimate the non-transportation costs for Standard Mail parcels in the USPS-FY13-13 Standard Mail destination entry cost model. The proposed Standard Mail parcels mail processing cost model is contained in the file PROP.7.USPS-FY13-12.xlsx (attached to this Petition

electronically). The worksheet tabs within the model have been highlighted in yellow if they contain any modifications. In addition, the areas within each worksheet where changes have been made have also been highlighted in yellow.

Cost Model Consolidation: Three Standard Mail destination entry EXCEL workbooks (letters, flats, and parcels/total) were filed as part of USPS-FY13-13 in Docket No. ACR2013. The Postal Service proposes that the analysis for all shapes be consolidated into one EXCEL workbook. This proposed modification is purely cosmetic and has no bearing on the cost avoidance estimates.

Error Correction: The Postal Service proposes the correction of two errors that were found in the model. The Basic Carrier Route volume and weight data by shape that were entered in pages 39, 74, and 109 of USPS-FY13-13 were incorrect. This error has been corrected in page 38 in the new model.

In past annual compliance report (ACR) dockets, the input value representing the number of letters (in trays) that a pallet contains has also been incorrect. The mail characteristics data in USPS-FY13-14 indicated that the average Standard Mail pallet contained 3,501 pieces. This figure has been used in past dockets for both letters and flats. In reality, this figure represents the number of flat-shaped pieces that the average pallet contains. One would expect that a higher number of letters would fit onto a pallet. The average pallet contained 6,653 letters in FY 2013. The Postal Service proposes that this statistic be incorporated into the mail characteristics file (USPS-FY13-14) in the future and relied upon to estimate the letters non-transportation costs.

Obsolete Operation / Data Removal: The Standard Mail destination entry cost model contains cost estimates for mail processing operations that are no longer relied

upon by the Postal Service to process and deliver mail. These operations include bedloading activities,[1] the sorting of letter trays using sack sorting machines (SSM) at network distribution centers (NDC),[2] the use of SSMs to sort sacks at processing and distribution centers (P&DC),[3] and the manual banding of letter trays.[4] The data used to develop these estimates were contained in pages 34, 76, and 104 in USPS-FY13-13. This page has therefore been deleted from the proposed cost model and the input data are no longer relied upon to develop the non-transportation cost avoidance estimates.

The cost estimates for NDC tasks have historically been multiplied by an NDC "realization factor," which appears to be obsolete. It is unclear what this factor represents, the factor is not developed every fiscal year, and its value (0.971) is, in essence, one. The NDC realization factor has therefore been removed from the proposed model.

The cost model has also historically relied upon a flow proportion value for mail that is transported from originating delivery units (DU) directly to NDCs (22.6 percent) that appears to be obsolete. One goal of the NDC activation process was to eliminate direct transportation between NDCs and DUs. This flow proportion factor has therefore been changed to 0.0 percent in the proposed model.

More Recent Productivity Data: The USPS-FY13-13 cost model relied on methods time measurement (MTM) predetermined time system data that were developed twenty years ago. The parcel mail processing cost models, however, now

[1] Virtually all mail entered by mailers and dispatched from processing facilities is now containerized.
[2] Tray sorting machines have been deployed to NDCs. Letter trays are therefore no longer processed using the SSM at NDCs.
[3] The number of sacks were greatly reduced following the Docket No. MC95-1 "classification reform" case. The P&DCs that housed an SSM either removed that equipment or used the equipment to process mail other than sacks (e.g., nonmachinable outside mail pieces).
[4] While postal employees may sleeve and band individual letter trays from time to time, automation now performs the bulk of this task.

rely on productivity data that were collected during a 2009 field study. The 2009 data have therefore been incorporated into the destination entry cost model and the MTM worksheets have been removed from the model. In addition, a tray sorting machine productivity value has been incorporated into the model to reflect the fact that both NDCs and P&DCs now use tray sorting machines to process letter mail. These productivity values are now used to estimate the non-transportation costs in pages 12-26 of the model using a format that is more consistent with other mail processing cost models.

Mail Characteristics Profile: The USPS-FY13-14 mail characteristics profiles for Standard Mail letters and flats were developed using data from mail.dat files. Mail.dat files are not generated for parcel mailings. Consequently, there is no efficient way to develop a Standard Mail parcel mail characteristics profile. However, the Standard Mail parcel mail processing cost model (USPS-FY13-12) does contain arrival profile data that can be used to develop a mail characteristics profile for parcels. The USPS-FY13-12 Standard Mail parcel mail processing cost model has been modified to include a worksheet (the last tab in the workbook) that contains a new mail characteristics profile. This mail characteristics profile has also been incorporated into the proposed USPS-FY13-13 Standard Mail destination entry cost model (page 36) and is used to estimate the Standard Mail parcel non-transportation costs.

IMPACT:

The impacts of these proposed modifications are summarized in Tables 1, 2, and 3 below. Due to the anomalous parcel cost avoidance estimates calculated in FY 2013, Table 3 compares the proposal estimates to the FY 2012 estimates.

TABLE 1: LETTER COST IMPACT

Cost Element		USPS-FY13-13 Cost Per Pound	Proposal Cost Per Pound	Percent Difference
Transportation				
	DDU	$0.3496	$0.3496	0.00%
	DSCF	$0.3163	$0.3163	0.00%
	DNDC	$0.2749	$0.2749	0.00%
Non-Transportation				
	DDU	$0.1284	$0.0556	-56.73%
	DSCF	$0.0787	$0.0288	-63.47%
	DNDC	$0.0399	$0.0105	-73.72%
Total				
	DDU	$0.4780	$0.4052	-15.24%
	DSCF	$0.3950	$0.3451	-12.64%
	DNDC	$0.3148	$0.2853	-9.35%

TABLE 2: FLAT COST IMPACT

Cost Element		USPS-FY13-13 Cost Per Pound	Proposal Cost Per Pound	Percent Difference
Transportation				
	DDU	$0.2387	$0.2388	0.00%
	DSCF	$0.2005	$0.2005	0.00%
	DNDC	$0.1775	$0.1775	0.00%
Non-Transportation				
	DDU	$0.0263	$0.0189	-28.40%
	DSCF	$0.0156	$0.0107	-31.11%
	DNDC	$0.0074	$0.0059	-19.84%
Total				
	DDU	$0.2651	$0.2576	-2.82%
	DSCF	$0.2161	$0.2113	-2.24%
	DNDC	$0.1849	$0.1834	-0.79%

TABLE 3: PARCEL COST IMPACT

Cost Element		USPS-FY12-13 Cost Per Pound	Proposal Cost Per Pound	Percent Difference
Transportation				
	DDU	$1.4273	$0.8183	-42.67%
	DSCF	$1.3233	$0.7279	-45.00%
	DNDC	$1.0910	$0.6135	-43.77%
Non-Transportation				
	DDU	$0.7684	$0.0325	-95.77%
	DSCF	$0.6735	$0.0142	-97.90%
	DNDC	$0.4222	$0.0072	-98.30%
Total				
	DDU	$2.1957	$0.8508	-61.25%
	DSCF	$1.9968	$0.7420	-62.84%
	DNDC	$1.5132	$0.6207	-58.98%

Proposal Eight - Changes in Attributable Costs Related to USPS Tracking

Objective:

The Postal Service seeks changes in the methodology for attributing costs related to Other Ancillary Services, such as USPS Tracking (formerly Delivery Confirmation), which are provided for certain shipping products at no extra charge. We propose additional changes to the methodology for attributing costs for paid USPS Tracking, changes that reflect the evolution of postal operations and that take advantage of the availability of census data.

Background:

In recent years, the Postal Service has made several significant changes related to Other Ancillary Services. For example, USPS Tracking is now offered at no extra charge for several shipping products, including Priority Mail, Parcel Select (including Parcel Select Lightweight), Standard Post and First-Class Package Service. Tracking barcodes are now applied on retail parcels even when the Tracking service has not been paid for by the customer. Postal operations now perform many en-route scans in addition to the final scan that confirms delivery, and these scans are performed whether or not the Tracking service was purchased. As a result, the costs associated with most scanning should no longer be attributed to the Tracking service in Other Ancillary Services but rather to the host product.

The exception is for costs associated with window acceptance where the customer purchases USPS Tracking. However, the Postal Service now attaches USPS Tracking barcode labels on all First-Class Mail parcels and Media Mail

whether or not the customer paid for the USPS Tracking Extra Service. The same barcode label is applied in either case, so it is now difficult for data collectors to identify whether additional revenue for the service was received. At the same time, Postal Service census systems have matured to the point where it is now possible to determine the percentages of tracking barcodes for which revenue was received. We propose using data from the Point of Service (POS) to assign window acceptance costs appropriately between the paid USPS Tracking Service and the host pieces.

Proposal:

There are several components to this proposal.

1. Attribute costs related to final, en-route and non-window acceptance scans to the host product, not to the USPS Tracking Service. Perform the calculations in the B workpapers rather than make a D report adjustment. Thus, the cost model for USPS Tracking in NP26 will no longer be needed for the D report adjustment.
2. In IOCS, for window-related acceptance costs use the percentage of volume from the Point of Service (POS) retail system that paid for the extra service to attribute costs to USPS Tracking.

Rationale:

Most scanning activities are now performed whether or not the customer paid for USPS Tracking. Scanning is now primarily performed for management of operations and for service measurement. Thus costs should be assigned to

the host product rather than to the USPS Tracking service in Other Ancillary Services.

The exception is window acceptance of retail products where the customer can still purchase USPS Tracking for First-Class Mail parcels and Media Mail. Because it is now not possible to always distinguish paid from unpaid USPS Tracking by examining the barcode label on the piece itself, data collectors cannot reliably identify paid versus free USPS Tracking. However, the Point of Service (POS) system now collects sufficiently detailed data that the percentages of shipping products with paid Extra Services can be calculated. Using the census data percentages is now more reliable than attempting to use the Extra Service markings on the piece.

In current CRA methodology, tracking-related costs for shipping products that provide the tracking at no additional charge are first assigned to USPS Tracking by the data systems and through the “B” workpapers, then transferred back to the host products in the “D” report adjustment. As a consequence, the correct product costs are not directly available in the “C” report, making analysis by cost segment unnecessarily complex for more and more products that now offer tracking at no additional cost. Shifting this cost assignment upstream to the “B” workpapers simplifies analysis of product costs by cost segment.

Impact:

The cost impact of the method change by product, based on FY13, is shown in the following table. The impact on Competitive Products, along with related material, is provided under seal in USPS-RM2014-6/NP4:

Table 1: Impact of Proposal Eight on Total CRA Costs

	FY2013	FY2013	Difference	
Product	Current	Proposed	Proposed-Current	%Difference
First-Class Mail Parcels	$ 583,503	$ 581,791	$ (1,712)	(0.3%)
Standard Mail Parcels	$ 109,645	$ 110,210	$ 565	0.5%
Parcel Post	$ 330,644	$ 332,332	$ 1,688	0.5%
Bound Printed Matter Flats	$ 130,418	$ 130,822	$ 404	0.3%
Bound Printed Matter Parcels	$ 263,130	$ 272,894	$ 9,764	3.7%
Media and Library Mail	$ 372,402	$ 377,103	$ 4,701	1.3%
Other Ancillary Services	$ 242,626	$ 281,578	$ 38,951	16.1%
Other Market Dominant	$ 26,897,949	$ 26,905,550	$ 7,601	0.0%
Total Market Dominant	$ 28,930,317	$ 28,992,281	$ 61,963	0.2%
Total Competitive and International	$ 10,666,820	$ 10,605,244	$ (61,576)	(0.6%)
Other	$ 32,721,725	$ 32,721,338	$ (387)	(0.0%)
Grand Total	$ 72,318,863	$ 72,318,863	$ -	0.0%
Note: In FY2013, some products only offered free USPS Tracking beginning on 27Jan2013.				
Because they offer free USPS Tracking for all of FY2014, the differences calculated for FY2013				
are larger than will be expected for FY2014.				